## FHA SINGLE FAMILY HOUSING



**NEWS** 

## **NEWS AND UPDATES**

# **TO:** All FHA Single Family Approved Mortgagees

#### What's New

Eliminating Post-Payment Interest Charges and Revising Adjustable Rate Mortgage (ARM) "Look-Back" Period and ARM Consumer Disclosure Requirements

Two final rules published today in the *Federal Register* support Truth in Lending Act requirements for FHA-insured mortgages

Today, the Federal Housing Administration (FHA) published two final rules in the Federal Register:

- **1.** Federal Housing Administration (FHA): Handling Prepayments: Eliminating Post-Payment Interest Charges (Docket No. FR-5360-F-02), and
- **2.** Federal Housing Administration (FHA): Adjustable Rate Mortgage Notification Requirements and Look-Back Period for FHA-Insured Single Family Mortgages (Docket No. FR-5744-F-02).

Collectively, these final rules provide consistent protections for mortgagors (borrowers) with FHA-insured mortgages, while supporting FHA's efforts to ensure borrowers have early access to information when making decisions about their FHA mortgages. The rules are responsive to the regulations implementing the Truth in Lending Act, as recently revised by the Consumer Financial Protection Bureau (CFPB).

#### Handling Prepayments: Eliminating Post-Payment Interest Charges

The Handling Prepayments: Eliminating Post-Payment Interest Charges final rule revises FHA regulations that currently allow an FHA-approved mortgagee to charge the borrower interest through the end of the month when the mortgage is paid in full before month end. The revisions to our regulations will allow mortgagees to charge interest **only through the date the mortgage is paid in full**, prohibiting the charging of interest beyond that date. The changes are responsive to the CFPB's January 30, 2013 final rule, *Ability-to-Repay and Qualified Mortgage Standards under the Truth in Lending Act (Regulation Z)*, which limits the use of prepayment penalties and broadly defines "prepayment penalty" to include FHA's previously allowed post-payment interest charges.

FHA's final rule adopts the policies published in our March 13, 2014 proposed rule on this topic without change, including:

- Notwithstanding the terms of the mortgage, mortgagees shall accept a prepayment at any time and in any amount, and shall not charge a post-payment charge; and
- Monthly interest on the debt must be calculated on the actual unpaid principal balance of the mortgage as of the date the prepayment is received and not as of the next installment due date.

With the publication of this final rule, FHA is prohibiting prepayment penalties for **all** FHA-insured single family mortgage products and programs, regardless of whether the product or program could fit into one of the circumstances where the CFPB's final rule allows a limited prepayment penalty. This maximizes consistency among FHA-insured single family mortgage products and provides the same protections for all FHA borrowers.

The revised policies in this final rule become effective for FHA-insured mortgages closed on or after January 21, 2015.

## Revisions to FHA Adjustable Rate Mortgage (ARM) Notifications and ARM Look-Back Period Policies

The Adjustable Rate Mortgage Notification Requirements and Look-Back Period for FHA-Insured Single Family Mortgages final rule makes two revisions to FHA's ARM program that are consistent with industry practice already required by the CFPB for conventional mortgages. The revisions will require mortgagees to:

- Base an interest rate adjustment that results in a corresponding change to the borrower's monthly payment on the most recent index value available 45 days before the date of the rate adjustment (commonly referred to as a "look-back period"). Previously, FHA required a 30-day look-back period.
- Comply with the disclosure and notification requirements of the CFPB's February 14, 2013 final rule, *Mortgage Servicing Rules under the Truth in Lending Act* (TILA Servicing Rule), including at least a 60-day but no more than 120-day advance notice to the borrower of an adjustment to their monthly payment. Previously, FHA required a 25-day advance notice.

FHA's final rule adopts the policies published in our May 8, 2014 proposed rule on this topic without change.

The revised policies in this final rule become effective for FHA-insured ARMs consummated on or after January 10, 2015.

#### **Revisions to Sample Loan Documents**

As applicable to both of these final rules, we will provide any needed revisions to current FHA sample loan documents before the effective date.

### **Quick Links and Resources**

- Review today's final rules on the <u>Federal Register</u> web site.
- Call the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number by calling the Federal Information Relay Service at 1-800-877-8339.
- Visit our online resource information at www.hud.gov/answers.

RESOURCE INFORMATION			
FHA INFO Archives:	Visit the <u>FHA INFO Archives</u> to access FHA INFO messages issued from 2012 to the present.		
Have FHA Questions?	For FHA technical support, please search the <a href="FHA Frequently Asked Questions">FHA Frequently Asked Questions</a> site or contact the FHA Resource Center by email at: <a href="mailto:answers@hud.gov">answers@hud.gov</a> or by telephone		

	toll free between 8:00 AM & 8:00 PM ET at: (800) CALLFHA or (800) 225-5342. Persons with hearing or speech impairments may access this number via TTY by calling the Federal Information Relay Service at (800) 877-8339.		
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